BOARD MINUTES 2006

THE ALABAMA PREPAID AFFORDABLE
COLLEGE TUITION PROGRAM
MEETING OF BOARD OF DIRECTORS
February 22, 2006
MINUTES

BOARD MEMBERS:

Ms. Kay Ivey, Chairman
Mr. Ed Lewis
Dr. Mike Malone
Lt. Gov. Lucy Baxley (not present)
Dr. Harold McGee
Mr. Ed Sherling
Ms. Debbie Dahl (for Dr. Roy Johnson)
Mr. Russell Buffkin
Ms. Sarah Moore (not present)
Mr. Ricky Jones (not present)

ALSO PRESENT:

Ms. Daria Story, Assistant Treasurer
Mr. Anthony Leigh, Deputy Treasurer
Mr. Roman McLeod, College Savings Program Director
Ms. Brenda Emfinger, College Savings Program Director
Mr. Mike Manasco, Legal Counsel for Treasury
Mr. Bud Pellecchia, Callan Associates
Mr. Bob Crompton, Actuarial Resources Corp.
Mr. Marty Lee, Jackson Thornton & Company
Mr. Lanny Crane, Jackson Thornton & Company
Mr. John Story, Jackson Thornton & Company
Ms. Bridgett Ott, Intern with Treasury
Ms. Dee Coker, Court Reporter

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PUBLIC MEETING of the PACT Program held in Room 300, RSA Union Building, 100 North Union Street, Montgomery, Alabama, on Wednesday, February 22, 2006, commencing at 10:33 a.m.

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THE CHAIRMAN: We'll call the meeting of the Board of Directors of the PACT Program, February 22, to order at 10:30 a.m.

We'll ask the Secretary to call the roll.

(A roll call was conducted)

THE CHAIRMAN: A quorum is present.

The first order of business is the approval of the minutes as circulated to the Board. Your pleasure, please. Do we have a motion to approve the minutes of the last board meeting of November the 30th as circulated?

MR. SHERLING: So move.

THE CHAIRMAN: Is there a second?

DR. MALONE: I'll second the motion.

THE CHAIRMAN: The motion is seconded to adopt the minutes as circulated. All in favor say aye.

(Board members in favor of the motion so indicated)

THE CHAIRMAN: All opposed, nay. The minutes are adopted. Now, for your question and discussion.

DR. MALONE: I think the transcription of the minutes are a great archival as part of the public record, however, in my experience it is unusual that a transcription serve as minutes.

MR. MANASCO: Madam Chair, would you like for me to comment on that?

THE CHAIRMAN: Certainly.

MR. MANASCO: Dr. Malone, we are adopting Robert's Rules of Order as our source of authority to guide the meeting. And it describes minutes as the record of the proceedings of the deliberative assembly. Unless the minutes are to be published, they should mainly contain a record of who was present and what was done as opposed to what was said.

And there are some inherent dangers in substituting a transcription for the minutes as far as public awareness of who was there, what was done, and, the action that was taken. So it would appear that you could certainly use the transcription as a permanent record for reference and, at the same time have, summary minutes as they are called following Robert's Rules of Order for publication as with the reference of the Board on that. But, generally, minutes are not a detail by detail of what was said. At certain times, you would want to have things in the minutes. For instance, if you voted to go into executive session and there was opposition, someone may want to say, I want it reflected in the minutes that I was opposed to an action; but, ordinarily, it's just a vote was taken; and individual member's votes are not recorded.

THE CHAIRMAN: Thank you. We will consider recording the minutes as described in Robert's Rules of Order.

Quarterly reports. Brenda Emfinger, on pages 26 through 30.

MS. EMFINGER: We have been very busy. Each year in January, we mail an annual statement of account to all contract holders. It occurred to me that most of you have probably never seen this statement, so I brought a copy today of one of my personal PACT account statements.

In addition to that, we will be mailing out this month what we call the first-time-in-college letter. We send this letter to all graduating seniors in high school, and it gives them information that they need to tell them how to use their contract. Then in April we mail to the purchasers a usage statement. This provides a summary of all the invoices that we have paid to the colleges.

I have also provided for you, within your packet of information, some summary statistical information that was compiled by the College Savings Plan Network that is information on all of the other programs. I also provided some summary statistics on the PACT Program from inception, just to give you an idea of how the program has grown both in assets and in terms of the number of contracts.

So if you have any questions about any of the information, I'll be happy to answer.

MR. LEWIS: We have two programs, 529 and PACT. How does a person decide I'm going to choose PACT versus 529?

MS. EMFINGER: People can enroll in both and we encourage that since the two complement each other. PACT pays for tuition, and it's a prepaid. The 529 is a savings program. And it pays for tuition and other costs as well as for graduate or professional school. We talk with the customer, encourage them to read the materials, and provide any information that we can to assist.

THE CHAIRMAN: We'll call on Bud Pellecchia from Callan Associates to give us our investment report.

MR. PELLECCHIA: Before I get into the report, I was actually going to update you on this SEC investigation, because I know that Dr. Malone brought it up at the last meeting. And we have been keeping staff up to date on a regular basis.

Just as a review, following the mutual fund scandal, the SEC felt like they were behind the eight ball and needed to be more visible with regard to governance on the whole investment industry. And they took upon themselves to do an inquiry into the institutional consulting industry. And they were looking at mainly the idea of pay-to-play, which is defined as managers that do business with consulting firms and then are given preferential treatment in the hiring practices.

And they did a broad-brush look at a wide majority of consulting firms. They did focus on the larger ones like Callan and Wilshire, and Evaluation Associates and others like that. But they also looked at the brokerage consulting firms, Smith Barney, Merrill Lynch, and those type of folks.

They came out with a letter in May of last year that said that, yes, there are potential conflicts of interest in the investment consulting industry. It basically said that each firm deals with it differently, and they would be addressing each consulting firm on a one-on-one basis. So nothing public has really come out other than that letter.

As it relates to Callan Associates, they have had discussions with us about improving our disclosures. As you know, we do business with money managers in that we provide performance measurement reports to them, like they can get access to our data so they can show how they rank in our database, for instance, in large cap value or large cap growth. And we also provide educational conferences throughout the year where money managers can pay a fee to attend those conferences. They asked us to improve our disclosure with regard to that. And we have improved our disclosure in our ADV. I don't know if you've noticed, but over the last year now in every one of our performance reports at the back of the book, it has a list of all managers that do business with us. And I think I've updated you on that before.

Now, after that May letter went out -- and I think some people in the industry are expecting there to be some new smoking gun to come out on consulting firms with regard to some actual instance of pay-to-play. And as it relates to Callan Associates, after they reviewed 80 to 90,000 pieces of paper and e-mail, there is nothing that they have discovered, nor did we think they would discover, with regard to this.

There is one outstanding issue that really came out all of sudden. We think it's because they spent so much time looking at us that they wanted to come up with something. And we a had a brokerage division of our firm that we sold in 1998 called Alpha Management. We sold it to the Bank of New York. And instead of taking all the money for that sale in one piece in 1998, we took it over the next eight years to end in 2006, this current year. And we were going to take $6 million per year for that sale. But the contract was written in such a way that $5.5 million was a constant payment over the eight years. But there was a contingent payment of $500,000 per year, that in order for us to get that $500,000, there had to be a stable amount of brokerage business continuing at Alpha.

So the amount of brokerage business that was in place in 1998, the contract was written in such a way that that amount or higher has to be in place in order for us to get the other $500,000. They feel that our ADV was not clear on that disclosure. So that's the one outstanding issue that is being discussed right now. But all the other things about pay-to-play is off the table right now. And we feel very good about that.

So with that update, are there any questions on that?

THE CHAIRMAN: Well, thank you, Bud. We appreciate your forthrightness and your candor. And it's always good to know more than what is read in the journals. We appreciate the update.

MR. PELLECCHIA: If you turn to the report. And I'm happy to say that we did have a good quarter; but before I get into the performance of the total fund and the managers, if we can go to the first section and take a look at the market overview.

The economy did slow down during the fourth quarter. GNP growth for the third quarter of '05 was very strong at 4.1 percent, but the fourth quarter growth came in at about 1.1 percent. So it's a slowdown. Still, the equity markets did well. The S&P 500 was up over two percent. The EAFE market Non-US stocks was up over four percent.

The bond market was relatively flat, but up almost 60 basis points. Oil was the story for most of the year. The price of oil and other commodities drove the energy sector up during the full year; however, in the fourth quarter, oil did back down from its recent peak. So the energy sector was actually the worst performing sector during the quarter. It was down almost seven percent. Basic materials, for this past quarter, was the best performance sector.

The full year at the bottom of the page, you see that the domestic equity market as measured by the S&P was up almost five percent, so not trading below long-term trend, but still in positive territory. The area to be was in Non-US stocks once again. They were up over 13 percent. And the domestic fixed-income market for the full year was just 2.4. So it was a modest performance for the year of 2005, especially outside EAFE.

On the next page, just taking a look at the domestic equity market on page 3, the little box there in the middle to the right shows the breakdown of performance by market capitalization. Mid and large cap stocks outperformed small cap stocks for this previous quarter. And then, in the chart there between growth and value, growth outperformed value in both large cap and small cap, which is really the case for the last two quarters; but as you recall, for the longer periods of time, value has been outperforming growth for a long period.

For the full period at the bottom, the opposite was true of what happened during the quarter as both mid and small cap beat large cap stocks and value outperformed growth.

On page 4 is just talking a closer look at the fixed-income market. As I mentioned before, the Lehman aggregate was up 59 basis points for the quarter, and the benchmark ended the year with a 5.08 percent yield and a calendar return of 2.43. So rising short-term interest rates eroded about half of the yield during the quarter and for the year. The fed did raise rates twice during the quarter by 25 basis points each. The fed fund rate ended the quarter at 425. With persistent increase in short-term rates and the long-term rates, the ten year notes not really moving at all, it created very much of a flattening yield curve. In fact, at one point during the month of December, it was inverted. And usually that means that we are heading into tougher economic times. It can point to a recession. We are no longer at an inverted yield curve, but it is very flat.

Corporate bonds underperformed treasuries, ending a difficult year where corporates lagged treasuries by over a hundred basis points. Also, the lesser quality corporate bonds, the Triple B bonds, lagged even more, which was a complete reversal from the year before. In 2004, spread products like corporates and mortgages did very well versus treasuries. 2005 was the opposite. And also in 2004, the lower quality you had, the better. As you see at the bottom of the page, as I mentioned, in the little box there, Lehman aggregate is up 2.43. Your median core bond manager was up 2.78. So, active management paid off for this past year in the bond area.

On page 5 is the international equity market. EAFE rose 4.1 percent in dollar terms in the fourth quarter. However, the dollar did rise as well, about 2.8 percent. So that actually reduced your US investor's return investing oversees. When the dollar rises, that hurts your investments, US based investors overseas. So it would have been even higher had it not been for the rising dollar.

The big story for the quarter was Japan, which gained almost 12 percent as economic and political momentum continued. You see there the green box. Japan-only managers were up 13 percent. Emerging markets also continued on its three-year advancement, up 7.2 percent, which is the sixth consecutive quarter of outperforming developed markets. And on the bottom of the page there, you see that for the four quarters ending '05, you had strong Japan performance as well as very strong emerging market performance.

Looking now to the next section, which is the asset allocation, this is a snapshot look of where the PACT fund is versus target. And I will point out that this is the old target. We've made a new asset allocation that is very close to where you are now as your actual. The new asset allocation, the target is 41 percent large cap, nine percent small cap, 28 percent fixed income, and then 21 percent international equity. So we'll see that going forward in this report as it reflects the full investment period where you have a new target asset allocation. And there were a lot of moves made. Brenda and staff worked very hard to make sure that the asset moves took place in an efficient manner. I'll point those out as we see the asset page.

On page 10, this is a snapshot of the performance just for the quarter. At the bottom of the page there, you see that the target return at the very bottom would have produced a 1.87 percent. So if you had been invested at the target weights of your target and only in passive management, so just in index funds at that target weight, you would have had a return of 1.87. Your actual return for the quarter was 2.65, and that's made of two effects. How well the managers outperformed their benchmarks was a positive 53 basis points, most of that coming in the large cap equity space. There's actually a drag in international equity of 34 basis points. And then the asset allocation effect is a slight deviation of your asset allocation versus your target added 24 basis points for this quarter.

So we had a very good quarter, but we still have ground to make up as we'll see on page 13. If you skip ahead, 13 is the performance ranking of the PACT fund on a total fund basis versus other public fund in our database. This page goes back only four-and-three-quarter years. The quarter was a very strong quarter, near the top of the charts; but for the four-and-three-quarter year period, it has suffered. Now, you're behind the benchmark, the policy target benchmark, by about a hundred basis points. If you will recall there, we had underperforming managers in the large cap area and also in international, which we have addressed. We still have an underperforming manager on the value side; but a lot of changes have taken place over this time period. So my hope is that going forward with the new asset allocation in place and also with the new managers in place, we'll see significant improvement.

On page 14, I do want to point out your long-term performance, because it does have an impact on your pricing and everything else. The ten-year return is an 8.39 percent annualized per year; and the since-inception number back 15 years is over nine percent, 9.91 percent, which is above your actuarial.

If you go to page 15, this is the page where I wanted to point out the asset moves that took place during the quarter. Number one is the fact that Peregrine was your large cap growth manager; has been replaced by Intech. So assets moved away from Peregrine and into Intech. We also reduced the exposure to Rhumbline, which is your large cap index manager. So now it is closer to a third, a third, a third between growth, core, and value. Bear Stearns is still there at 90 million. In the small cap area, no changes took place. Oh, I'm sorry. We did reduce exposure to Ernst Partners, mainly because their performance had been very good versus, you know, value outperformed growth and Ernst also did very well. So now we are at more of a neutral position between value and growth in the small cap area.

International equity, addressing the new asset allocation to raise the amount in international equity, we increased the assets to New Star Asset Management. And then, within fixed income, the AmSouth contract was terminated; and we hired Western Asset Management in a core plus, core fixed income plus strategy, which looks to invest not only Lehman aggregate sectors but also high yield emerging market debt and non-dollar bonds. And we also reduced the exposure to Sterne Agee. So Western has an overweight versus Sterne. So I know it was a busy quarter for Brenda and folks to make sure that that went as seamless as possible.

I would like now to flip to the domestic equity section on page 25. This is the performance of Rhumbline, which is your large cap core index fund. It has been managed against the Russell 200 index, which is the largest 200 stocks in the universe. And it's done what it's designed to do. It's mimicked the benchmark, the Russell top 200 index over time with slight tracking area but against active managers in the core space, mainly because large mega cap stocks have not performed as well as the smaller and mid cap stocks. Against active management, it has not performed as well. I think most people in the investment world will tell you that styles move in and out of favor and large cap stocks are due. We did change Rhumbline's benchmark to the S&P 500 during the quarter. So instead of being the top 200, now we're going to be measuring them against the S&P 500 starting this quarter.

On page 28 is the performance of Bear Stearns, which is your large cap value manager. They have been in place for you for about a year and a half. They did have a very good quarter. They were up 3.44 percent meeting the value benchmark and ranking in the 16 percentile for the quarter. However, they are still underperforming for the year and since inception. At the end of September, we had put them on the watch list. And we talked about the fact that we wanted to see significant improvement in Bear Stearns or they would be replaced. We had an internal bogie for them of 500 basis points above the Russell 1000 value over the six months from 9/30 to 3/31/06. As of the end of the quarter, they were over 200 basis points and on their way of meeting that bogie. However, for the month of January, they have underperformed. Their performance for the month of January was 1.57 percent, and the Russell 1000 value for the month of January was 3.88 percent. So they are basically back to where they were at September. The reason for underperformance during January was sort of the opposite of why they performed well in the fourth quarter of '04, was that they had a signature underweight to energy and energy didn't do so well in the fourth quarter but it snapped back in January and did better as oil prices increased. And they have a higher quality bias that they feel is going to be rewarded going forward. But they have not been since. They have a mega cap exposure in some of the very leading industries, leading companies in the country that they feel that they're buying at a significant discount to their true value. But those types of stocks have not been rewarded. But they feel like at some point they are going to be rewarded big time. So either they're early and we're going to see a big pop in performance or we're going to continue to see mediocre to poor performance.

The RFP process has continued. We just received approximately 40 responses that all came in on the 15th of February that we're analyzing right now. And I know that there's an agenda item to discuss it further. There's always that balance of, you know, you want to give a manager time to perform when their style is in favor. Now, people say, well, you've got to give them a full market cycle. And the question all comes, how long is a full market cycle? I think Bear Stearns will argue that the last year and a half does not represent their full market cycle. But we have a job to do to evaluate managers and have the best one for us going forward.

On page 31 is the performance of Ernst Partners. They are your small cap value manager. They did not have a particularly strong quarter. They, in fact, were in the negative territory of 1.61 percent versus the 2000 value of positive 66 which put them near the bottom of the chart for the quarter. However, their performance for the last year and since inception has been very strong, over 11 percent, almost 12 percent for the full year, way ahead of benchmark, top quartile, and up over 19 percent since inception and in the six percentile against other managers.

DR. McGEE: What was their problem for the quarter?

MR. PELLECCHIA: They actually had an overweight to some energy stocks. It's a theme. And really, when you broke down the S&P 500 or the Russell 3000, it was almost the haves and have-nots. If a manager had an exposure to energy or an overweight to energy, they did very well. If they didn't, then they didn't do as well.

DR. MALONE: Isn't that basically going to be the norm? I mean, how is that going to change, not to be so simple?

MR. PELLECCHIA: Well, I think that commodities -- energy particular, oil particular -- if it's moving very strongly one way or the other, I think people do take a position to either -- very few people are mutually weighted to energy. Most people either think it's a good idea to invest in that sector or not. And so managers that do have the exposure, you know, do or don't. When that sector moves, it is going to tell the story. But I think over long periods of time, that sector doesn't move very much and it stays pretty much near the long-term average. But last year and a half, we have not seen that.

DR. MALONE: Do we have a good balance in our portfolio to take advantage of that saw tooth trend where one spikes and the other one valleys and basically we may have a slight return or slight loss? Balance, I guess.

MR. PELLECCHIA: Right. I think we do within small cap, because Turner doesn't really have that much exposure. Ernest does. In the large cap area, we probably don't have as much of an exposure to energy there because Intech, your new growth manager, as a growth manager, first of all, their process is more mathematical, so it's not going to make any fundamental judgments on energy. It's going to be more of where they think the volatility of returns is coming from. So I don't really know where they are on the energy sector. I'd have to take a look, but I know that Bear Stearns is underweight because they just don't feel like that's a positive long-term place to be. But I could look further into that to see the overall exposure to energy.

Page 34 is Turner's performance. They're your small cap growth manager. They've only been in place for three quarters of the year. The last quarter and since-inception number are both strong, 37 percentile and 39 percentile respectively.

And the next section, page 38, is performance of New Star, which is your international equity manager. They are relatively new as well. Unfortunately, they haven't gotten off to as good a start as we had hoped. Their performance for the quarter did lag the benchmark and their peer group. Their exposure to emerging markets did help; however, the main issue was poor stock selection within Japan. They were underweight in the financial sector within Japan, specifically the banks that led most of the rally during the second half of the year. During the fourth quarter, they did add to their exposure to Japan, so it's more at a benchmark weight than it had been, but that's really what explained their underperformance.

Now, for the full three quarters, they're at 10.8. The benchmark is at a 13.7. I haven't seen the actual numbers, but I know that in the month of February, it has been sort of rotating. The Non-US market has been rewarding more of the defensive areas. That should help New Star's performance.

One thing that I think we ought to consider -- and I know it's not an agenda item, and I don't mean to spring it on anybody without previous thought -- but now that we've increased the exposure to international equity and we have $145 million with one manager, New Star, it might be prudent to diversify some of that manager risk and add a second manager. I wouldn't suggest we add a second manager and split the assets, but more of a complement with about a third of the assets and keep New Star with two-thirds. I just think now that we've added almost 40 million more to them in the last quarter, they do have a big chunk of your total assets. I think, you know, obviously we've come to a search process. And I think the way we break down the international world is slightly different than what we might do in the domestic world. You know, in domestic, you have capitalization and style that really drives the performance in U.S. markets. So you have large cap stocks, small cap stacks, gross stocks, and value stock. But in the international world, not only do you have those areas that differentiate yourself, but you also have country exposure, currency exposure, emerging market exposure. So I think what we would recommend -- what I do recommend is that the type of manager that we would look to, to complement New Star with is one that is more benchmark agnostic. That's a term that we've used, but it means that it's a manager that doesn't necessarily look towards the EAFE benchmark to manage their benefits. You have New Star that's doing that very succinctly as far as making sure that they're not taking too many big bets away from how EAFE is broken down by capitalization and country. But I think if we hired a complementary manager that, you know, took some bigger bets and maybe had more exposure to small cap or maybe had more exposure to emerging markets, that in the long run, that would add diversification to our international portfolio.

THE CHAIRMAN: I think I hear our consultant making a recommendation to us that deserves our discussion and a decision.

DR. McGEE: I make a motion that we proceed with an RFP to find an international manager to complement what our core manager is doing and as well as a diversifier.

THE CHAIRMAN: You've heard the motion. Is there a second?

MR. LEWIS: I second.

THE CHAIRMAN: Further discussion? All in favor say aye.

(Board members in favor of the motion so indicated)

THE CHAIRMAN: All opposed, nay. The motion carries. Let the search begin.

MR. PELLECCHIA: Continuing on page 40 is performance of Sterne, Agee, which is your fixed income manager, one of two now. They've underperformed slightly for the quarter of only 39 basis points versus the ag of 59. You can see the playing field of active management performance is very tight, but their ranking was 90 percentile for the quarter. For the full year, they also underperformed. They're underweight to treasuries really led to their underperformance this year, and, also, they had a longer duration not really against the benchmark but longer duration than their peers for sure, and that underperformance rate rose. Their longer-term numbers are still strong, but this last year did hurt their two-year performance. We have reduced their exposure, and we've added more assets to Western. We don't have a page here for Western or for Intech, for that matter, because they didn't have a full quarter of performance. Western did have about a month of performance. They were ahead of the benchmark. They were up 1.04 versus the benchmark, being up 95 basis points for that one month. They're also off to a good start in January. They were ahead of the benchmark by about 95 basis points. I don't think we should have to put Sterne on a formal watch list, but I think an informal one would be prudent.

That concludes my report.

THE CHAIRMAN: The next item is the III(c), Chairman's Update. You recall last fall, this Board charged the Treasurer to develop an active role with developing partnerships with our institutions of two-year and four-year. And you specifically asked that we go and meet with the Council of Presidents and with the Alabama Commission on Higher Education.

When we met with the Council of Presidents, thanks to the help of Dr. McGee, who serves on this Board by their appointment, we shared with the Council the charts that I have brought today just to make them part of the minutes. But it shows the amount of dollars that the PACT Program has provided each two-year and each four-year institution over the life of the program and also the number of students who have participated in each of the two-year and each of the four-year because of being in the PACT Program.

I think this was indeed an eye-opener to all of the college presidents. And we also, at that meeting, asked the four-year colleges to designate a PACT/529 liaison at their institution for marketing and publicity and to share that with the Treasurer so that we might establish marketing and share opportunities for encouragement for participation. Dr. McGee also wrote a letter to the presidents urging partnership.

And the Alabama Commission on Higher Education presented us with a resolution that the Commission had already adopted in support of the colleges' participating with the PACT Board of Directors and also urging all institutions to keep tuition at an all-time low. So we thank Dr. Malone for those efforts as well.

Then this Board authorized a resolution to be presented to every president and chancellor, two-year and four-year colleges, urging all institutions to keep tuition at a very, very bare minimum this year. In response to that resolution, Chancellor Jack Hawkins wrote a note of appreciation and compliance. But I just wanted to give you an update on that initial effort to develop a partnership. I think this is a strong foundation of beginning that we will continue to nurture and encourage and have this relationship going so that institutions can encourage their faculty and staffs to partake of either one or both of the programs as well as their alumni and other outreach opportunities that our two-year colleges have. So that's the Chairman's update on directions that were given to the Treasurer last fall.

We move now to Item IV, Decision Items, pages 31 through 46 of our agenda, Consideration of resolution to adopt board procedures. Legal counsel, Mike Manasco will guide us through this. We've had one presentation about the components of the law and the requirements thereof. Mike.

MR. MANASCO: We have had one meeting where we briefly discussed the open meetings law and indicated we would be adopting internal rules and procedures. I think rather than me trying to re-explain what has already been written, I might just inquire of the Board, are there any observations, questions, or comments that you need me to address prior to consideration of the resolution?

THE CHAIRMAN: And the resolution is on page 46 for your consideration and adoption. Are there any observations or questions by the Board before we adopt the resolution on page 46?

DR. McGEE: Move adoption.

MR. SHERLING: Second.

THE CHAIRMAN: All in favor say aye.
(Board members in favor of the motion so indicated)

THE CHAIRMAN: All opposed, nay. The motion is carried.

Item B, we have a consideration on page 47 of a resolution to consider issuing a request for proposal for an investment consultant whose contract expires October 31, '06. Do I have a motion to adopt the resolution on page 47, request for proposal for investment consulting services?

MR. SHERLING: So move.

MR. LEWIS: I'll second.

THE CHAIRMAN: Any discussion? Are we ready for the question?

All in favor say aye.
(Board members in favor of the motion so indicated)

THE CHAIRMAN: All opposed, nay. The motion carries.

IV(c), Progress Report on Bear Stearns. In your manila folder, now, you have an item on this topic as well as page 48 of your agendas. The Board is asked to consider the following options: (1) terminate the contract with Bear and proceed with interviewing candidates from the recently issued RFP or, (2), continue monitoring the performance of Bear until the May board meeting or, (3), any other option the Board would like to consider.

MR. PELLECCHIA: If I could, Madam Chair, I would just make my recommendation that we sort of do (2) but continue with the RFP process and narrow down the respondents to a list that we'll present to the Investment Committee in approximately four weeks. And then the Investment Committee can recommend two or three that we may want to interview and continue to watch Bear. And then if we feel like we need to replace Bear, we'll have the option to do so.

THE CHAIRMAN: Is the Board comfortable with that recommendation?

MR. SHERLING: I move.

MR. LEWIS: I second.

THE CHAIRMAN: Mr. Sherling moves; Mr. Lewis seconds. Any further discussion? All in favor say aye.
(Board members in favor of the motion so indicated)

THE CHAIRMAN: All opposed, nay. The motion is carried.

Item number D, consideration of resolution on page 49 and 50 about the PACT enrollment period. This is an important subject. When I arrived, the enrollment was one month, September. And, then the last couple of years we moved it from May through June.

So this recommendation before you comes to change the enrollment period to October, November, and December of a given year starting with '06.

DR. McGEE: Could you give us a little history of why we want to do this?

THE CHAIRMAN: Holiday gift giving season is typically October through December, and we can market the PACT as an excellent gift to consider.

Historically, we've had enrollment in September, meaning back to school. And as the notes give us in our agenda, the year end September 30th has been a complicating factor. And we'd like to believe that we can start advertising in the schools during the early part of the school year and then a decision to purchase in the new enrollment time.

MR. BUFFKIN: What drawback, if any, do we foresee by moving it later? I see a lot of benefits by moving it around the holiday season.

MS. EMFINGER: No drawbacks.

THE CHAIRMAN: Any more questions on changing the enrollment period to October, November, and December?

MR. SHERLING: I'll make the motion.

MR. BUFFKIN: Second.

THE CHAIRMAN: All in favor say aye.
(Board members in favor of the motion so indicated)

THE CHAIRMAN: All opposed nay. The motion carries.

Now, decision item E, page 51, consideration of additional option for the PACT Program to offer and sell one-year PACT contracts. In your manila folder, again, if I may call your attention, there are two pages in there titled agenda item IV(e), if you would pull those two items out. One is a fact sheet and the second page is the proposed resolution for adoption.

Brenda, you want to highlight the facts about having a one-year contract to offer?

MS. EMFINGER: As we talked about earlier, the pricing in the PACT Program has increased dramatically. And as staff, over and over, we hear from people, I just can't afford it; it's just too much. In addition to that, we have always only offered that one product, a four-year contract. All the other states that have prepaid programs offer more than one option. We didn't want to complicate the program, but we believe that if we could sell one-year contracts, it does two things. First of all, it makes them more affordable, even if they have to buy them in increments of one year; but it also allows a grandparent to buy a year, the other grandparent to buy a year, the parents to buy a year, so on and so forth. In the past, as you know, with the four-year contracts, there can only be one purchaser or one person listed as purchaser. There are families who don't want to participate in paying for it because that one person controls the contract. So it would also help with that problem.

We don't anticipate any real difficulties in terms of setting up the contract. We have spoken with the actuary and the records administrator both to make sure that we aren't starting something that's going to cost a lot of money to do. We will put together some more administrative details about this, but the staff believes that this will serve a tremendous need among the public, and it certainly will put it down with these younger families to a point where they can afford it.

THE CHAIRMAN: Can you give us an example, Brenda, of, for example, based on last year's enrollment fee of an infant at $21,500 for a four-year PACT contract, what would that cost be were you to buy a one-year contract?

MS. EMFINGER: The actuary will be working on those numbers. It will be approximately one-fourth of the four-year contract. One mitigating factor is in a four-year contract, you're getting 135 hours. In a one-year contract, you're getting 32 semester hours, so a total of four would be 128 rather than the 135. But to be quite honest, that still is adequate to complete most every four-year degree.

MS. DAHL: At a previous meeting, Dr. Johnson made the suggestion to offer two year contracts. And we can't know when a parent or grandparent buys, if a baby will go to a two-year or a four-year. I understand that. But with a two-year tuition being so much cheaper than a four-year, it could affect your pricing. You know what those rates are.

MS. EMFINGER: Well, to be honest with you, the parents that we talk to with newborns are already talking scholarships.

DR. MALONE: My wife and I are literally considering assisting a family member and I would like to purchase her a two-year contract to give her an opportunity to get an education. Why would I not have the opportunity to purchase a two-year contract?

MS. EMFINGER: I don't see it as that much of an issue as I do the fact that most parents don't think that their child is going to go to a two-year school. We have excellent two-year schools, but they're thinking in terms of Auburn or Alabama. I think the other problem is when they get to the point of going to college and they've got that two-year contract, what do we do for the two-year school?

DR. MALONE: Well, logistically, could we offer both options at their respective price? Does it complicate the program? If we are considering the one-year contract, why not look at the cost of a two-year and the cost of a four-year and then make those options? And I think this would be a very consumer-friendly option.

MR. CROMPTON: There is no actuarial bar to the type of contract that Dr. Malone has mentioned. In fact, other states have implemented the sort of contract where you can buy two years at a two-year college, you can buy four years at a four-year college or you can buy a contract that will pay two years at a two-year college plus two years at a four-year college.

The difficulty lies in the judgment on how complicated the program is compared to the consumer needs. And you really walk a fine line here. And Brenda is better qualified to address this issue than I am. But you don't want to necessarily overwhelm the consumer with a lot of choices. You want to give him enough that he feels like he's got everything he needs, but you don't necessarily want to give him too much. And this is, I think, some of the thought process in what Brenda has said.

MS. EMFINGER: We were trying really to keep this program as simple as possible. And we don't want to mislead people. I mean, we don't want people to look at the price, buy that contract and then not realize that the benefit is restricted to the two-year schools.

DR. MALONE: The market says that if we don't offer the two-year option, that we're not taking cognizance of the vast majority of those students who begin their education as well as adult learners in the two year system.

MR. CROMPTON: The restrictions would be when the child has a two-year contract purchased for them and decides to go to Samford or start off as a freshman at Alabama, then we're not going to be able to pay the full amount since it would be the average of the two year schools..

DR. McGEE: Most people who buy these contracts are not buying them for a 28-year-old freshman. They're buying them for a child who will enter college at age 17 or 18. Do y'all know percentage of people in freshman or sophomore classes are at two-year schools? I realize some of these are older aged adults.

MS. DAHL: And I can't cite you those right now, but a large number of those are 18 and 19 year olds, absolutely.

DR. MALONE: I would venture the majority of traditional aged college students are in the two-year system.

MS. DAHL: The two year product would be more affordable, a lower cost.

MS. STORY: And I think it supports the two-year school system as well. The records administrator is not here today and they will have the program development cost. We will need to discuss with them if there would be any additional expense to offer multiple products.

MS. EMFINGER: Part of the assumption used in pricing the four year contract allows a percentage of students to attend the two year system first.

MR. LEWIS: So it we offer a two-year contract, the pricing for the four-year contract will go up?

MS. EMFINGER: For those beneficiaries that currently have four-year contracts, I don't think that would change. I think those assumptions would hold. But I think if you started offering that option in the future, there would probably be a need in the pricing to reduce the percentage that attended two-year college for the first two years. Wouldn't you agree with that, Bob?

MR. CROMPTON: I concur.

MR. BUFFKIN: Do you have any idea what a two-year contract would cost in general terms? Half, more than half, less than half of the existing contract price?

MR. CROMPTON: Less than half is about as accurate as I can say at this point.

MS. EMFINGER: I don't have a problem with offering that two-year contract. I would hate to not offer a one-year contract; again, because I think if you bought those two years, then you're still going to need two one-year contracts for the other two years.

MS. STORY: Or invest in the Higher Education 529 Fund Program.

DR. McGEE: But the one-year proposal that you made is very attractive pricing wise. I don't want to lose that. That's a very good proposal.

DR. MALONE: The Board is always very mindful of the consumer. How can we find choices at a reasonable maintenance cost to be able to offer our customers a better deal?

DR. McGEE: Could we adopt one proposal, and then put everything else under study and come back at a later point if we want to make other options available?

MS. EMFINGER: If we're going to sell one-year or two-year contracts, we need to decide this before the May meeting.

THE CHAIRMAN: Mr. Lewis?

MR. LEWIS: The 529 gives you a very similar option today. It may not be the same benefit, but it gives you the option to pay less and pay what you want to pay.

DR. MALONE: If you had the opportunity to sit with a customer and explain the options, that would make a lot of sense to the customer. The unfortunate reality is that conversation does not take place on the kind of scale we're talking about. So, the more consumer friendly we can make the product, the better.

MR. BUFFKIN: Is there any way to price a separate contract that would give you either one year at the four-year or two years at the two-year so that you don't have three different contract types; you just have two different contract types. It's just that second contract will either give you one year at a four-year or two-years at two-year? You make the choice.

DR. McGEE: The tuition differential would be so great in the life of a child. The two-year system will hold the closest. They have the least increments in tuition historically. The four-year institutions, you have these huge jumps. You may have a nine percent or a 13 percent jump in one year in tuition. So I don't think that can be done and make it work mathematically. PACT is still a good buy.

MS. DAHL: Two-year tuitions right now are 60 percent of the average public Alabama University tuitions. University tuitions are going to rise faster than the two-year systems. So the two-year system is more affordable. Do you know how many other states have a two-year product?

MS. EMFINGER: I don't know the number. Bob, do you? I know Florida does.

MR. CROMPTON: Several states have two year products, but I don't know the total.

MS. DAHL: So there is experience with two-year contracts.

MR. CROMPTON: Yes. There is.

MS. DAHL: I wonder if that would be valuable to look at.

MR. CROMPTON: It provides some insight. But, remember, the state-to-state variations are usually so great that you have to be pretty careful when you start comparing one state to another.

DR. MALONE: Two years ago, Alabama had the second highest tuition in the 16-state region. Now we've dropped to third highest.

THE CHAIRMAN: Let me refresh us that we are trying to encourage sales. We are trying to encourage saving for college, be it two-year, four-year, or beyond. What are the best mechanisms to get that done?

MS. EMFINGER: And what you may want to do -- and this is just a suggestion -- is to implement this one this year, and then next year give us some time to do some more research and all on a two-year contract and then look at adding that next year.

DR. McGEE: Madame Chairman, I'd like to move adoption so we can move on it just to get some action.

MR. SHERLING: Second.

THE CHAIRMAN: I have a motion and a second to adopt the resolution as presented.

DR. MALONE: I can certainly go along with that, because time is of the essence. I would really strongly encourage us to look at a segregation of a two-year contract because that's where the market is. We need to be smart about that.

THE CHAIRMAN: Any more discussion? Are you ready for the question? All in favor say aye.

(Board members in favor of the motion so indicated)

THE CHAIRMAN: All opposed, nay. The motion carries.

(Ms. Dahl asks to be excused from the meeting to attend Senate committees.)

THE CHAIRMAN: Item Number V, audit report by Mr. Marty Lee.

MR. LEE: I'm going to keep my comments brief with the details of the financial statement, because I know that the Board has monitored the investment portfolio throughout the year as far as the values and the earnings. And, also, Bob is here to talk in-depth about the actuary calculations. So I'm going to highlight a few things about the financial statement, especially for those who are new to the Board, and then open it up to any questions and then just comment in general on the conduct of the audit.

On page 1 of the financial statement is the independent auditor's report on the financial statement. And it basically outlines the scope of our audit and the results of our audit. The result is that the financial statements that are included herein are presented fairly in all material respects in accordance with Generally Accepted Accounting Principles. So one of the things I will mention is that we do our audits in accordance with Generally Accepted Auditing Standards but also Government Auditing Standards, since you are a governmental entity. These financial statements are included in the State's CAFR report.

Turning to pages 3 through 5. Management's discussion and analysis is a summary by management to explain the financial statements that are included herein. So I will not go into any detail in that, but I wanted you to know that that is not a Jackson Thornton document; that is a management's document. And our responsibility with respect to that management discussion and analysis is just to make sure that it is consistent with the financial statements that are being presented along with the discussion. And it certainly does that.

The financial statements themselves, again, I do not intend to go through the numbers in detail, because they are the numbers that you've been working with throughout the year. The presentation of these financial statements is the statement of net assets basically represents the investment portfolio.

The actuarial numbers that you'll be discussing later, that future benefit obligation, is not included in these financial statements except as a disclosure item in the footnotes. And I'm going to turn to that on page 16. And that is where the funding status is disclosed to the readers of the financial statement. You're funded at a 91.4 percent status this year compared to a 91.5 percent in the prior year. So, basically, the financial statements present your investment portfolio, which we have audited; and then note four discloses the future benefits to be paid out benchmarked against your net assets. And our responsibilities as the auditors is to audit the information that's provided to the actuary to make sure that the information that Bob is using is accurate so that he can make those calculations. So through sampling techniques, statistical sampling, we do a lot of work on the contracts to make sure that the contract information that's being provided to Bob is indeed accurate. And so we send confirmations to the different beneficiaries and that sort of thing, or the contract holder.

So are there any questions about the financial statements themselves or what they're intending to present to the readers of the financial statement? This report will be available on the web site. The supplementary information is not a part of the basic financial statement since it is more for internal management purposes.

If there are not any specific questions about the content of the financial statements -- let me make one comment before I move on to just the conduct of the audit. Page 1 references the implementation of a new required accounting standard - Governmental Accounting Standards Board Statement Number 40. It has to do with deposits and investment risk disclosures. It's basically intended to present enough information that the readers have a sense of what the risks are involved in the investment portfolio.

Page 9 of the financial statements, note three is the new disclosure requirements. This information was derived from the investment policy that this board had adopted back in August, and then certain definitions about risk and all have been included in here.

DR. McGEE: We have a question mark on our page. Someone want to tell us about that? On page 9 under deposits, there's a question mark.

MS. EMFINGER: It's just reference to the SAFE Program, which is just not required.

MR. LEE: Any deposit in a financial institution is going to be covered under either FDIC or the SAFE Program. So, yes, we did leave that in the final copy. And my copy doesn't have the question mark, so I'm not sure where that came from. Thank you for asking that question. But there will be no changes to the financial statements with respect to deposits. That is an appropriate disclosure.

Okay. Any other questions? And if not, I'll just move on to the few closing comments. There is, in your packet a copy of a letter addressed to the Board of Directors. This is a required communication under our auditing standards to just communicate certain matters to the Board that need to be communicated on an annual basis. And I usually like to highlight issues that are significant that the Board needs to be made aware of.

Because your audit runs so smoothly and because there had not been any significant changes in policies and procedures and standards other than GASB 40, there's really not much to mention here in this letter. Probably if there were something to be reported in this letter, it would be of a negative nature like a disagreement with management or a disagreement over an application over accounting polices and procedures or whatever the case may be that maybe we should present to the Board. We did not experience any of that working with the management team. Does anyone have any questions about that letter, I'll be glad to comment further, though I don't believe that there will be any real concerns when you do read that, if you haven't already.

I do just want to say that we appreciate very much being the auditors for the PACT Program. John and I enjoy attending the board meeting and seeing the depth of discussions. But I do want to say that, as always, we got a tremendous amount of help from the management team. And there were no audit adjustments. And everything, all in all, went real smooth during the audit. Any other questions?

THE CHAIRMAN: Marty, we appreciate you and our long-standing professional relationship. And we just say job well done.

MR. LEE: Well, thank you. We appreciate everyone here as well.

THE CHAIRMAN: Now, we come to Mr. Crompton, the 2005 valuation report. This is an important report for us to hear.

MR. CROMPTON: Thank you, Madam Treasurer and ladies and gentlemen of the Board. The very brief summary is that in dollar terms, in absolute dollar terms, our deficit changed for the worse by about $5 million in the course of last year. And to this year end, on a relative basis, it changed very little from a 91.5 percent funding basis to a 91.4 percent funding basis. So in relative terms, it was almost no change at all. And with your indulgence, rather than a page-by-page review of the actuarial report, I will give you what I think are the most important items in the actuarial report and then allow for any questions or observations that you may have.

Page 13 contains what I believe is the most important piece of information in the actuarial analysis. The table at the bottom of page 13 shows how we got from last year to this year. And you'll see that we have last year's deficit or actuarial status of 65.2 million along with several line items that show various items of change along with our ending deficit of 70 million and change. The first item that I have here is the projected change from September 30th, 2004 to September 30th, 2005. The reason why this is an item is that the deficit itself is a financial item, and as a financial item, it's going to change over time. If last year's assumptions had been exactly realized -- that is, if we had had inflation exactly at seven-and-a-half percent, if we had investment returns at exactly 9.0 percent, and if all of our cash flows had been exactly as we had projected -- then in addition to that, if we had sold no new contracts, we would have wound up at September 30th, 2005, at $5.867 million worse off than we were at September 30th, 2004. But, in addition to that, we sold new contracts. And you'll see on the third line of this table the new contracts improved our financial standing by $5.5 million. The thousand plus contracts sold due to the pricing and the favorable increase in tuition, wound up giving us a favorable effect of $5.5 million.

The fourth line is the effect of tuition increases actual versus what we had anticipated in last year's actuarial projections. You will recall that we had essentially zero tuition increases on our two-year colleges and approximately three-and-a-half percent tuition increases on our four-year colleges. And overall, that resulted in a $36.4 million improvement to the financial position of the fund. We also had slightly favorable investment experience compared to our 9.0 percent assumption. So that gave us nearly $5 million of favorable results to our financial position.

Then we come to the final two items. The final two items are actually composite items. The change in assumptions netted out to $18 million and change adversely affecting the program. There were quite a few changes in assumptions that were made. And these, as you will recall, were approved at the last board meeting. For information purposes, the changes in assumptions are detailed on page 11, two pages prior. And these five assumption changes together resulted in an $18.2 million increase to the deficit. And you'll see that on page 12, I give the individual effect of each of these five changes.

The investment return assumption change had the biggest single effect on the deficit, $41 million. It was a pretty significant change. Prior to this year, it was 9 percent. Now we've reduced that to 7.88 percent for five years followed by eight-and-a-half percent. The other items of the change, tuition inflation -- and we dropped the assumption from seven-and-a-half percent to seven-and-a-quarter percent resulting in a $12-and-a-half million favorable effect. Contract cancellations, we decided that it was more realistic to reflect more cancellations earlier relative to the date of purchase of the contract and less cancellations later on in the contract lifetime resulting in a $4.1 million increase to the deficit. Things got worse because of that.

We also made the change in a 15 percent two-year college participation to a 17-and-a-half percent two-year college participation resulting in a $13.8 million favorable change. And then, finally, we made a change on the timing of benefit payouts, as you see at the top of page 12. Previously we assumed that we would pay half of our benefits on September 1st, half on February 1st. Our revised assumptions reflecting the experience of the program is that 45 percent on November 1st, 45 percent on March 1st, and ten percent on August 1st. And that had a $10.6 million favorable effect on the program's financial position.

At the bottom of page 12, I show that if we had retained last year's assumptions rather than making the changes that we did, our deficit would have been 58.856 million as opposed to the reported $70 million of deficit that is reported in this year's actuarial report.

Finally, we have an item that I have conveniently called "Other" on page 13. I called it "Other" because, again, it's a composite item and it folds several pieces of information in here. I have a difference between my projections and the projections of my predecessor. Almost the first item that I performed as the actuary for the program is recast September 30th, 2004 results using the inventory information supplied to me by the records administrator. And as Brenda can attest, I spent a good deal of time trying to match against last year's number, and I was never able to get very close. I wound up being about 20 to 25 million dollars different.

So you will have some comfort with the work that I have done, I will let you know that when I make my projections, I do a seriatim projection for every contract. That is, for each contract that's out there, I make a projection of cash flows for that contract. And I spent some time, among other things, looking at the details of a representative sample of contracts to make sure that the projections were doing exactly what I had intended them to do, and they did. And I spent some time talking with my predecessor, and he supplied me with some information. The information was sufficient to discount some possibilities, but that was the extent of what I was able to do with the information from my predecessor. I think my best guess as to the difference at this point is that given that I do a policy-by-policy, a contract-by-contract projection, my best guess is that my predecessor used some approximate methods and that perhaps these approximate methods were perhaps a bit more approximate than were realized at the time.

Other than that, all I can say is I did spend a good deal of time trying to track this down. I had no success at all it, and I wound up with this other item of $27.763 million. It does include about $5 million worth of bias. It includes a little bit of amount for differences between actual and projected cancellations, and the rest would be differences between my predecessor's beginning number and my beginning number.

MS. EMFINGER: And we will continue to try to get to the bottom of that number with the previous actuary.

MR. CROMPTON: In my mind, the most important thing is to understand why there's a difference. The numbers that I represent to you that the $70 million I believe is the most accurate representation of our liability at September 30th, 2005.

MR. PELLECCHIA: The change in assumptions, theoretically, will go away. And when the investment performance is above 7.8 you'll see an actuarial gain.

MR. CROMPTON: We don't anticipate large changes in the assumptions every year, but they are reviewed and approved annually.

Two more items of a briefer nature that I would like to call your attention to. The first one is on page 16 where I look at the effects of changes in assumptions on results. And I show on the bottom of the page in a table the effects of changing tuition, inflation, and investment returns by one-quarter of a percentage point both ways and also the effect of both an adverse change in tuition by one-fourth of a percentage point and an adverse change in investment return by one-fourth of a percentage point. What that table tells you is that a change in either direction of about one-fourth of a percentage point in either of our two major assumptions, tuition inflation or investment returns, is going to result in about a $13 million difference to the actuarial deficit. That is, if tuition is one-fourth of a percentage point better, our results would be $13 million better and vice versa.

And finally, an extended analysis of volatility is shown on the next page, page 17. This is the section of the report I've called Stochastic Analysis. That simply means that I took our known volatility for both investment returns and tuition increases and captured them in a formal statistical distribution and said, given that, given 10,000 scenarios, how widely disbursed are the results? And you see the summary of that in the table in the middle of the page. The way to read that table is to say on that second line, the $39,480,000 deficit means that we expect about one-fourth of the time, there is a one-fourth likelihood that our results will be no worse than $39.48 million compared to our reported results of approximately $70 million deficit. And likewise, if you read further down at the bottom of the page, you'll see that I see that I say there is a 52 percent likelihood that our results will be no worse than the reported results of 70,029,603.

And with that, I will draw my prepared comments to a close and allow for any observations or questions the Board may have.

MR. PELLECCHIA: What's the time horizon on this? Do you know?

MR. CROMPTON: The time horizon on this Stochastic Analysis is the time at which the benefits for all existing contracts are exhausted, so approximately 22, 23 years.

THE CHAIRMAN: Any more questions for Mr. Crompton? Bob, we sure thank you. And, Bud, just as a comment, you know, we've lowered the investment assumption to 7.8; but, now, we're expecting investment returns well beyond that.

Moving right along in the interest of time, on page 52 and 53, this is a very important development. The prepaid plans will have the same financial aid advantage that 529 plans have. And that's a good thing. Congress has responded.

And with that we'll ask Mr. Anthony, Leigh, our Deputy Treasurer, to comment on the 2005 marketing plan and beyond.

MR. LEIGH: The last page of your board book has a recap of your 2005 marketing plan. If you'll recall, it was the direction of this board a year ago in our hopes of selling 1500 contracts that the marketing budget we $100,000. Looking back, we had about a 20 percent reduction from where we were a year ago, even with the increase in dollars spent on marketing.

The Treasurer and staff would like a little direction from the Board as we prepare to put together your 2006 marketing plan, given the new enhancement of the one-year contracts and the change in date. Is the Board comfortable with the $100,000? The previous two years, we have spent about $40,000. In 2002, 2001 and previously, we had been spending over $100,000.

DR. McGEE: I would state with your new changes, I would market as much as you can market.

MR. BUFFKIN: I think with the change of the one-year contract, I think it should be marketed as well as it has been in the previous years.

THE CHAIRMAN: Any other business to come before the Board? Hearing none, is there a motion to adjourn?

MR. BUFFKIN: So move.

THE CHAIRMAN: So moved by Mr. Buffkin. Is there a second?

MR. SHERLING: Second.

THE CHAIRMAN: Mr. Sherling seconds. All in favor say aye.

(Board members in favor of the motion so indicated)

THE CHAIRMAN: Motion carries. We are adjourned.

(The proceedings concluded at 12:51 p.m.)

Kay Ivey

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

CALLED MEETING OF THE BOARD OF DIRECTORS

April12, 2006

MINUTES

Present:
Chairman Kay Ivey
Mr. Ricky Jones
Dr. Mike Malone
Dr. Roy Johnson
Mr. Ed Lewis
By Phone: Dr. Harold McGee
Mr. Bud Pellecchia, Investment Consultant, Callan Associates
Absent:
Mr. Ed Sherling
Mr. Russell Buffkin
Lt. Governor Baxley
Others Present:
Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Mrs. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Mike Manasco, Treasury Legal Counsel

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the Office of the State Treasurer, First Floor, State Capitol, Montgomery, Alabama on April 12, 2006.

Agenda Item I.
The meeting was called to order by Chairman Kay Ivey at 10:05 a.m. Roll was taken and a quorum was present.

Agenda Item II. (A.)
Treasurer Ivey presented information on various contract options for consideration to be offered in the 2006 PACT enrollment period and thereafter. The information had been mailed to the board members and is attached for reference. After discussion, a motion was made by Dr. Roy Johnson to offer the following contract options:

Four-Year Contract – 128 semester hours, 8 fee terms at a Four-Year College/University
Two-Year Community College Contract – 64 semester hours, 2 fee terms at a Two-Year Community College
Two Plus Two Contract – 64 semester hours at a Two-Year Community College and 64 semester hours at a Four-Year College, 8 fee terms (4 at a Two-Year Community College, 4 at a Four-Year College)
The motion was seconded by Mr. Ricky Jones with unanimous approval.

Mr. Ricky Jones then made a motion to rescind the approval of a One-Year College/University contract which was approved at the February 22, 2006 board meeting. The motion was seconded by Dr. Mike Malone with unanimous approval.

Agenda Item II. (B.)
Chairman Ivey called on Mr. Bud Pellecchia to discuss the performance of Bear Stearns, the large cap domestic equity manager. Mr. Pellecchia discussed recent performance, stating that they had underperformed the benchmark (Russell 1000 Value) for the quarter ending March 31, 2006, with a return of 4.27% vs. the benchmark of 6.64%. He added that since inception, their annualized return was 11.57% vs. the benchmark return of 16.99%. Mr. Pellecchia recommended that the Board accept an offer from Bear Stearns to waive the management fee for three months, beginning April 1, continue with the manager search and interview potential candidates at the May board meeting. The performance will be discussed again at the May meeting.

There being no further business, the meeting was adjourned at 11:00 a.m.

Kay Ivey

Agenda Item II.

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

MEETING OF THE BOARD OF DIRECTORS

May 24, 2006

MINUTES

Present:
Chairman Kay Ivey
Mr. Russell Buffkin
Mr. Willie Huff
Mr. Ricky Jones
Mr. Ed Lewis
Dr. Harold McGee
Mr. Ed Sherling
Mr. Tim Vick for Dr. Mike Malone

Others Present:
Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Mrs. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Sam Dorsett, University of Alabama Intern
Mr. Mike Manasco, Treasury Legal Counsel
Mr. George Brown, George Brown & Associates
Ms. April Simon, INVESCO
Mr. Bob Crompton, Actuarial Resources
Mr. Bud Pellecchia, Callan Associates

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd floor Conference Room of the RSA Union Building, Montgomery, Alabama on May 24, 2006.

Agenda Item I.
The meeting was called to order by Chairman Kay Ivey at 10:30 a.m. Roll was taken and a quorum was present.

Agenda Item II.
The minutes of the February 22, 2006 board meeting were presented. A motion was made by Ricky Jones, seconded by Ed Sherling for approval as written. The

motion unanimously carried. The minutes of the April 12, 2006 called board meeting were then presented. A motion was made by Ricky Jones, seconded by Russell Buffkin for approval as written. The motion unanimously carried.

Agenda Item III.

Chairman Ivey called on Brenda Emfinger for the program report, which is attached for reference. Bud Pellecchia then presented the quarterly investment report. He gave an overview of the economy and manger performance. His report is attached for reference. Anthony Leigh gave the marketing report. Ricky Jones gave the Investment Committee report stating that reviews were held from the Request for Proposals that were issued for a large cap value equity manager and an international equity manager. Three managers from each asset classification were selected and recommended to make presentations to the board. Mr. Jones then asked Mr. Pellecchia to discuss the small cap equity allocation. Mr. Pellecchia provided information on small cap equities in relationship to the PACT Trust Fund, stating that he recommended no change in the current allocation. The Board concurred.

Agenda Item IV. (A.)

Chairman Ivey presented the recommended changes to the 2006 Rules and Disclosure Statement. After discussion of the changes, a motion was made by Dr. McGee for approval of the resolution adopting the Rules and Disclosure Statement, which is attached for reference. The motion was seconded by Mr. Huff with unanimous approval.

Agenda Item IV. (B.)

Chairman Ivey called on Bob Crompton for a discussion of the 2006 PACT Contract Pricing. Mr. Crompton presented actuarial assumptions for the pricing of Four-Year University Contracts, Two-Year Community College Contracts, and the Two Plus Two Contract. He also presented pricing scenarios based on the assumptions. After a discussion of the assumptions for the Four-Year University Contract, a motion was made by Mr. Jones for approval of the assumptions using Proposal 1 and 15% two-year community college participation for the first two years. The motion was seconded by Mr. Huff with unanimous approval.

Mr. Crompton provided information to the board concerning tuition inflation for the two-year community colleges. He explained that tuition inflation was greater than the assumed rate of return on the payments, resulting in pricing where contracts would be more expensive for newborns than ninth graders. He further stated that this would likely be the case in the Two Plus Two Contracts. Mr. Jones stated that the pricing would be a deterrent because it was higher than the current cost of attendance at the two-year colleges, and the lower pricing for the ninth grader over infant could be confusing to the consumer. The board then discussed, in detail, whether or not the Two-Year Contract and the Two Plus Two Contract would be beneficial to the public. It was the consensus of the board that these additional products should be analyzed more thoroughly, including pricing, before being offered to the public. A motion was made by Mr. Jones to rescind the decision at the April 12, 2006 board meeting to offer a Two-Year Community Contract and a Two Plus Two Contract and to offer only the Four-Year University Contract; and to make the necessary corrections to the 2006 Rules and Disclosure Statement concerning this change. The motion was seconded by Mr. Huff with unanimous approval. Mr. Jones then made a motion to adopt the resolution approving the assumptions for the 2006 Four-Year University Contract. The motion was seconded by Mr. Buffkin with unanimous approval. The resolution is attached for reference.

Agenda Item IV. (C.)
Mr. Pellecchia provided information on the three managers selected and recommended by the Investment Committee to make presentations for international equity management.
The companies and presenters were as follows:
Acadian Asset Management – Mr. Jack Gastler and Mr. Churchill Franklin
Brandywine Global Investment Management – Mr. Craig Scott and
Mr. Safa Muhtaseb
Thornburg Investment Management – Mr. Chris Neill and Mr. Lewis Kaufman
Information distributed by each is attached for reference. Following the presentations, a motion was made by Mr. Sherling to adopt the resolution with Acadian as the manager selected and Thornberg as a second choice. The motion was seconded by Mr. Buffkin with unanimous approval. The resolution is attached for reference.

Agenda Item IV. (D.)
Mr. Pellecchia provided information on the three managers selected and recommended by the Investment Committee to make presentations for large cap value domestic equity management. The companies and presenters were as follows:
Capital Guardian Trust Company – Mr. Terry Ragsdale and Ms. Suzanne Schechter
CS McKee & Company – Mr. Gene Natali and Mr. Greg Melvin
Goldman Sachs Asset Management – Mr. Donald Gervais and Mr. Michael Keough
Information distributed by each is attached for reference. Following the presentations, a motion was made by Mr. Huff to adopt the resolution with CS McKee as the manager selected and Capital Guardian as a second choice. The motion was seconded by Mr. Buffkin with unanimous approval. The resolution is attached for reference.

Agenda Item IV. (E.)

Mr. Jones informed the board that the Investment Committee had reviewed the proposals received for an Investment Consultant. He stated that based on the experience with Callan and Bud Pellecchia, and the fees, the committee recommended retaining Callan. He made a motion to adopt the resolution with Callan as the Investment Consultant. The motion was seconded by Dr. McGee with unanimous approval. The resolution is attached for reference.

There being no further business, the meeting was adjourned at 4:15 p.m.

Kay Ivey

AGENDA ITEM IV. (A.)

Adopted Resolution by the
PACT Board of Trustees at its meeting on May24, 2006

Topic: Revisions to the PACT Rules and Disclosure Statement for 2006

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 in recognition that the advancement of higher education in the State of Alabama is a proper governmental function and purpose of the State of Alabama; and,

WHEREAS, the Plan consists of two programs, one of which is the Prepaid Affordable College Tuition Program; and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, the Board annually reviews the Disclosure Statement and Rules for any revisions or amendments; and,

WHEREAS, staff and General Counsel have provided the attached revised documents for the Board's review, consideration and approval;

THEREFORE, BE IT RESOLVED, that the Board approves the proposed 2006 Disclosure Statement and PACT Rules.

AGENDA ITEM IV (B.)
Adopted Resolution by the
PACT Board of Trustees at its meeting on May 24, 2006

Topic: 2006 PACT Contract Pricing

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan pursuant to Title 16, Chapter 33C of the *Code of Alabama,* 1975; and

WHEREAS, Section 16-33C-6 (e) provides in pertinent part that the board shall obtain appropriate actuarial assistance; and,

WHEREAS, the Board of Trustees has with the assistance of the PACT Actuary, determined that the following assumptions are reasonable for the pricing of the 2006 PACT Contracts;

THEREFORE, BE IT RESOLVED, that the Board, with the advice of the PACT Actuary, adopts 2006 PACT Contract Pricing as follows:

Four-Year University Contract
Tuition and Qualified Fee Inflation – 7.5%
Tuition Bias – 8%
Benefit Usage – 8 semesters @ 16 hours per semester
Two Year College Participation – 15% first two years at two-year colleges
Record Keeping Charges - $3/month or $100/lump sum
Investment Return – 7.38% for 4 years, then 8% thereafter
Installment Interest Rate- 8.25%
Benefit Payout Timing – September and January
Cancellations - None

AGENDA ITEM IV. (C.)

Adopted Resolution by the PACT Board of Trustees at its meeting on May 24, 2006

Topic: Selection of PACT International Equity Manager

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, the procurement of professional service providers is subject to the requirements of Section 41-16-72(4), *Code of Alabama, 1975;* and,

WHEREAS, the Board of Trustees ("Board") received 30 written responses to the previously authorized Requests for Proposals for International Equity Investment Management Services; and

WHEREAS, the PACT investment consultant, Callan Associates, has evaluated all of the Proposals and in conjunction with the Investment Committee has recommended three (3) respondents to make oral presentations to the Board on May 24, 2006;

NOW, THEREFORE, BE IT RESOLVED, that based upon thoughtful consideration of the oral and written presentations made, the Board is satisfied that the Manager selected has demonstrated the requisite expertise, ability and professional skill necessary to best meet the current needs and best interest of the Program and the Board authorizes the Treasurer to negotiate and execute a contract with Acadian Asset Management for International Equity Investment Management Services for PACT for; period of five years; and further that if a Investment Management Agreement cannot be successfully negotiated, that Treasury Staff is authorized to negotiate with the next preferred respondent, Thornburg Investment Management.

AGENDA ITEM IV. (D.)

Adopted Resolution by the
PACT Board of Trustees at its meeting on May 24, 2006

Topic: Selection of PACT Large Cap Value Equity Investment Manager

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, the procurement of professional service providers is subject to the requirements of Section 41-16-72(4), *Code of Alabama, 1975;* and,

WHEREAS, the Board of Trustees ("Board") received 51 written responses to the previously authorized Requests for Proposals for Large Cap Value Equity Investment Management Services; and

WHEREAS, the PACT investment consultant, Callan Associates, has evaluated all of the Proposals and in conjunction with the Investment Committee has recommended three (3) respondents to make oral presentations to the Board on May 24, 2006;

NOW, THEREFORE, BE IT RESOLVED, **NOW, THEREFORE, BE IT RESOLVED**, that based upon thoughtful consideration of the oral and written presentations made, the Board is satisfied that the Manager selected has demonstrated the requisite expertise, ability and professional skill necessary to best meet the current needs and best interest of the Program and the Board authorizes the Treasurer to negotiate and execute a contract with CS McKee & Company for Large Cap Value Equity Investment Management Services for PACT for period of five years; and further that if a Investment Management Agreement cannot be successfully negotiated, that Treasury Staff is authorized to negotiate with the next preferred respondent, Capital Guardian Trust Company.

AGENDA ITEM IV (E.)

Adopted Resolution by the PACT Board of Trustees at its meeting on May 24, 2006

Topic: Selection of Investment Consultant

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, the procurement of professional service providers is subject to the requirements of Section 41-16-72(4), *Code of Alabama, 1975;* and,

WHEREAS, the Board of Trustees ("Board") received 5 written responses to the previously authorized Requests for Proposals for Investment Consulting Services that were evaluated by Treasury staff; and

WHEREAS, the Investment Committee has evaluated the information provided and the performance of the current Investment Consultant; and

WHEREAS, the Committee recommends that the Board review the analysis of responses to make a selection;

NOW, THEREFORE, BE IT RESOLVED, the Board has reviewed the responses and is satisfied that Callan Associates demonstrates the requisite expertise, ability and professional skill necessary to best meet the current needs and best interest of the Program; and the Board authorizes the Treasurer to negotiate and execute a contract with Callan Associates for Investment Consulting Services for PACT for a period of five years.

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MEETING OF THE BOARD OF DIRECTORS
August 23, 2006

MINUTES

Present:
Chairman Kay Ivey
Dr. Thomas Corts
Dr. Greg Fitch
Mr. Willie Huff
Mr. Ricky Jones
Dr. Harold McGee
Mr. Ed Sherling

Others Present:
Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Mrs. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Mike Manasco, Treasury Legal Counsel
Mr. George Brown, George Brown & Associates
Mr. Phil Rawls, Associated Press
Mr. Bob Crompton, Actuarial Resources
Mr. Bud Pellecchia, Callan Associates

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd floor Conference Room of the RSA Union Building, Montgomery, Alabama on August 23, 2006.

Agenda Item I.
The meeting was called to order by Chairman Kay Ivey at 10:30 a.m. Roll was taken and a quorum was present.

Agenda Item II.
The minutes of the May 24, 2006 board meeting were presented. A motion was made by Dr. McGee, seconded by Mr.Sherling for approval as written. The motion unanimously carried.

Agenda Item III. (A.)
Chairman Ivey called on Brenda Emfinger for the program report, which is attached for reference. Ms. Emfinger gave the Board an overview of information

on the program, the financial statement, and contracted services. She also stated that the staff will issue a RFP for transition management in order for the Board to select several providers to perform this service.

Agenda Item III. (B.)

Chairman Ivey called on Bud Pellecchia for the quarterly investment report, which is attached for reference. Mr. Pellecchia gave an overview of the markets and the trust fund. He stated that asset allocation was very close to the target and further explained that active managers trailed the indices for the quarter which attributed to performance below the benchmark. He then discussed individual manager performance. Intech, Bear Stearns, Earnest Partners, Turner, New Star and Western Asset are all being monitored but he reminded the Board that they were all fairly new managers. Bear Stearns, Earnest Partners and New Star are under review because of their underperformance. The Board requested interim reports be provided by email on those managers consistently underperforming.

Agenda Item IV. (A.)

Mr. Pellecchia discussed Bear Stearns, reminding the Board that even though they did not meet the Investment Policy requirement for termination, their performance continued to lag. He stated that since inception, they were behind the benchmark by 4.7%, but their performance had improved since June 2006. He further stated that he believed their style would come back into favor. Mr. Pellecchia reminded the board that at the May meeting, CS McKee had been selected as a large cap value equity manager if the Board chose to replace Bear or transfer a portion of Bear's assets. Mr. Pellecchia also reported that Bear has agreed to waive their management fee until November.

Upon further discussion, Mr. Pellecchia recommended taking half of the assets from Bear Stearns and placing them with CS McKee. A motion was then made by Mr. Jones to reduce half of the Bear assets of approximately $92,912,000 and place them with CS McKee, and to review Bear Stearns' performance at the end of the quarter for additional consideration of termination. The motion was seconded by Mr. Sherling with unanimous approval. Mr. Pellecchia will provide updated performance returns by CS McKee for distribution to the Board by email.

Agenda Item IV. (B.)

Chairman Ivey asked Mr. Pellecchia to discuss the recommended changes to the Investment Policy. Mr. Pellecchia discussed the requested changes made by Acadian, a new international manager. The recommended changes and previous changes to the 2005 Investment Policy were presented for adoption. A motion was made by Mr. Huff to adopt the resolution presented for the 2006 Investment Policy which incorporated the changes. The motion was seconded by Mr. Jones with unanimous approval. The resolution is attached for reference. The updated policy will be provided to the current investment managers.

Agenda Item IV. (C.)
Chairman Ivey presented information to the Board concerning various PACT contract options. Ms. Ivey asked the Board to discuss and consider carefully the information concerning the options for the 2007 enrollment period. After discussion, a motion was made by Mr. [illegible] [illegible] one additional PACT contract which provides 32 semester hours, or one-year, at a four-year college/university. The motion was seconded by Mr. Huff with unanimous approval.

Agenda Item IV. (D.)
Chairman Ivey called on Mr. Bob Crompton, the PACT Actuary, to discuss the 2006 PACT Trust Fund Valuation assumptions. Mr. Crompton gave out updated information concerning the tuition inflation assumption (attached for reference). He stated that the analysis of 2005/2006 tuition increases revealed a [illegible]% increase at the two-year schools and a 4.23% increase at the four-year schools. This resulted in an average increase, since inception, of 7.05% for the two-year schools and a 6.89% average for the four-year schools with the aggregate being 7%. Mr. Crompton then discussed each individual assumption and recommendation with the Board. After discussion, a motion was made by Dr. McGee for adoption of the resolution concerning the 2006 trust fund valuation assumptions, as recommended by the Actuary. The motion was seconded by Mr. Sherling with unanimous approval. The resolution is attached for reference.

Agenda Item V. (A.)
Chairman Ivey presented information to the Board concerning the qualified fees for 2006/2007. The information is attached for reference.

Agenda Item V. (B.)
Chairman Ivey called on Mr. Anthony Leigh for a marketing report. Mr. Leigh informed the Board that a tri-fold with information on both 529 programs was being printed, as well as the 2006 PACT brochure. He also informed the Board that the annual PACT newsletter was being printed for distribution to current contract holders.

There being no further business, the meeting was adjourned.

Kay Ivey

Chairman Kay Ivey

AGENDA ITEM IV. (B.)

Adopted Resolution for Consideration by the PACT Board of Trustees at its meeting on August 23, 2006

Topic: Adoption of 2006 Investment Policy

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1-12); and,

WHEREAS, the Board has the power to invest as it deems appropriate any funds in the PACT Trust Fund in any instrument, obligation, security, or property that constitutes legal investments for public funds in the state, including legal investments for the State Treasurer and the Alabama Trust Fund; and,

Whereas, the Board has the power to establish other policies, procedures, and criteria necessary to implement and administer the provisions of the law; and,

Whereas, the Board's Investment Consultant, Callan Associates, has reviewed and recommends approval of the marked revisions on page 5 of the Investment Policy to provide direction to the benchmark agnostic international equity manager and,

Whereas, the Board has considered the recommended revision as attached hereto.

Now, Therefore, Be It Resolved, that the revised Investment Policy and Guidelines Statement dated August 2005 as Amended November 30, 2005 shall hereafter be designated and published to the PACT Disclosure Statement as the August 2006 Investment Policy and Guideline Statement and is hereby approved and adopted on behalf of the PACT Program.

AGENDA ITEM IV. (C.)

Adopted Resolution for Consideration by the PACT Board of Trustees at its meeting on August 23, 2006 Topic: Selection of Contract Options

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, Section 16-33C-7 (a)(1)-(11) provides the minimum mandatory terms to be included in each PACT contract including, but not limited to, (1) The amount and the number of contract payments required from a purchaser on behalf of a designated beneficiary; (9) The number of credit hours contracted for by the purchaser; (10) All other rights and obligations of the purchaser and the PACT Program; and (11) such other terms, conditions, and provisions as the board considers in its sole discretion to be necessary or appropriate; and,

WHEREAS, the Board has received and considered information from Treasury staff that contract pricing may be a contributing factor to recent declining sales and that offering additional contract options for purchase may be attractive to Alabama citizens; now,

THEREFORE BE IT RESOLVED, that the Board authorizes developing the following additional PACT product: One Year at a Four-Year College University Contract; and,

BE IT FURTHER RESOLVED, that Treasury staff is empowered to formulate official agreements, marketing, technical, and administrative details to offer said contracts for sale during the 2007 Enrollment Period.

AGENDA ITEM. IV. (D.)

Adopted Resolution for Consideration by the
PACT Board of Trustees at its meeting on August 23, 2006
Topic: Assumptions for 2006 PACT Trust Fund Valuation

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)- [illegible]

Whereas, as a part of oversight the Board of Trustees is responsible for approval of the actuarial assumptions used in the annual fiscal year end valuation of the trust fund; and,

Whereas, Robert B. Crompton, Actuarial Resources Corporation, the actuarial consultant, has provided his recommendations, assumptions and advices to the Board, and the Board had substantial discussion and consideration thereof;

Therefore, Be It Resolved, that the Board adopts the following assumptions to be used in the September 30, 2006 trust fund valuation:

Tuition Inflation: 7.25%

Investment Return: 7.92% through 2011; 8.5% thereafter

Two-Year College Participation: 17.5%

Bias Toward Higher Cost Institutions: Four-Year - 8%; Two-Year - 3%

Payment of Tuition and Qualified Fees: 15 hours for 8 semesters, 8 hours final semester;

45% fall (November), 45% spring (March), 10% summer (August)

Contract Cancellations:

(Year 0 = year of purchase)	Lump Sum	5-Year	Extended
Year 0	.5%	5%	6%
Year 1	.5%	2%	5%
Year 2	.5%	1%	4%
Year 3	.5%	1%	4%
Year 4	.5%	1%	3%
Year 5 and later	.5%	1%	2%

Death and Disability: 0

Agenda Item V. (A.)

MEMO

TO: PACT Board

FROM: Brenda Emfinger

DATE: August 23, 2006

<u>RE: 2006/2007 Qualified Fees</u>

Staff gathered the tuition/fee rates from all Alabama public colleges and universities. In the Rules "*Qualified Fees*" *means those fees* ***approved by the Board*** *which are required as a condition of enrollment for all students attending the Eligible Educational Institution in which the designated Beneficiary is enrolled.*

Below is a list of the fees (by category) that were approved at the August 2006 board meeting.

Four-Year Universities	Two-Year Community Colleges
Building Fee	Technology Fee
Technology Fee	Facility Fee
Administrative Fee	Bond Surety Fee
Registration Fee	Building Fee
Instructional Fee	
Building Fee	
Learning Resource Fee	
Facility Fee	
Bond Surety Fee	

Attached is a list of the qualified fees for 2006/07 that meet the basic definition. No new category of fees was reported.

No Action Required

ALABAMA PUBLIC COLLEGES AND UNIVERSITIES
Qualified Fees
Four-Year Universities

COLLEGE	QUALIFIED FEES
Alabama A&M University	Building Use Fee: $25/semester Technology Fee: $50/semester
Alabama State University	No Qualified Fees
Auburn University	No Qualified Fees
Auburn University at Montgomery	Administrative Fee: $30/semester
Jacksonville State University	No Qualified Fees
University of West Alabama	Technology Fee: $60/semester
Troy University	Registration Fee: $50/semester
Troy University at Dothan	Registration Fee: $50/semester Instructional Fee: $9/hour ($108 Max)
Troy University at Montgomery	Registration Fee: $50/semester
Troy University at Phenix City	Registration Fee: $50/semester
University of Alabama	No Qualified Fees
University of Alabama at Birmingham	Building Fee: $32 + $3/hour (no Max) Learning Resource Fee: ($2 - $11/hour)
University of Alabama at Huntsville	No Qualified Fees
University of Montevallo	Facility Fee: $17 + $3/hour
University of North Alabama	Technology Fee: $10/hour Facility Fee: $9/hour
University of South Alabama	Registration Fee: $60/semester Library/Facility Fee: $30/semester Building Fee: $100/semester
Athens State College	Facility Renewal Fee: $9/hour (No Max) Technology Fee: $9/hour Bond Surety Fee: $1/hour

Qualified Fees

TWO YEAR COMMUNITY COLLEGES

COLLEGE	QUALIFIED FEES
Alabama Southern Community College	Technology Fee:$9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Bevill State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Library Fee: [illegible]/semester Bond Surety Fee: $1/hour
Bishop State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Calhoun Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour **Building Fee: $5/hour**
Central Alabama Community College	Technology Fee: $9/hour Facility Fee: $9/hour Bond Surety Fee: $1/hour
Chattahoochee Valley Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Faulkner State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Facility Usage Fee: $3/hour Bond Surety Fee: $1/hour
Gadsden State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Jefferson Davis Community College	Technology Fee: $9/hour; Facility Fee: $9/hour; Bond Surety Fee: $1/hour
Jefferson State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour Building Fee: $12/hour
Lawson State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour

Northeast Alabama Community College	Technology Fee: $9/hour Facility Fee: $9/h Bond Surety Fee: $1/hour **Building Fee: $5/hour**
Northwest-Shoals Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Building Fee: $6/hour Bond Surety Fee: $1/hour
Shelton State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Snead State Community College	Technology Fee: $9/hour Facility Fee: $9/hour Bond Surety Fee: $1/hour Building Fee: $4/hour
Southern Union State Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Wallace Community College at Dothan	Technology Fee: $9/hour; Facility Fee: $9/hr Bond Surety Fee: $1/hour
Wallace State Community College at Hanceville	Technology Fee: $9/hour; Facility Fee: $9/hr Bond Surety Fee: $1/hour
Wallace State Community College at Selma	Technology Fee: $9/hour Facility Fee: $9/hour Bond Surety Fee: $1/hour
Enterprise/ Ozark Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Lurleen B. Wallace Community College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Drake State Technical College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour
Reid State Technical College	Technology Fee: $9/hour; Facility Fee: $9/hour Bond Surety Fee: $1/hour

Trenholm State Technical College: Patterson Campus	Technology Fee: $9/hour Facility Fee: $9/hour Bond Surety Fee: $1/hour
Trenholm State Technical College: Trenholm Campus	Technology Fee: $9/hour Facility Fee: [illegible]/hour Bond Surety Fee: $1/hour
Marion Military Institute*	Technology Fee: $153/semester Facility Fee: $153/semester Bond Surety Fee: $17/semester

* Became a part of the Two-Year Community College System in 2006

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MEETING OF THE BOARD OF DIRECTORS
November 29, 2006

MINUTES

Present:
Chairman Kay Ivey
Dr. Thomas Corts
Dr. Greg Fitch
Mr. Willie Huff
Mr. Ricky Jones
Dr. Harold McGee
Mr. Ed Sherling

Others Present:
Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Mrs. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Mike Manasco, Treasury Legal Counsel
Mr. George Brown, George Brown & Associates
Mr. Dave White, The Birmingham News
Mr. Bud Pellecchia, Callan Associates
Mr. Bob Lowry, The Huntsville Times
Ms. April Simmons, INVESCO

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd floor Conference Room of the RSA Union Building, Montgomery, Alabama on November 29, 2006.

Agenda Item I.
The meeting was called to order by Chairman Kay Ivey at 10:00 a.m. Roll was taken and a quorum was present.

Agenda Item II.
The minutes of the August 23, 2006 board meeting were presented. A motion was made by Dr. McGee, seconded by Dr. Fitch for approval as written. The motion unanimously carried.

Agenda Item III. (A.)
Chairman Ivey called on Brenda Emfinger for the program report, which is attached for reference. Ms. Emfinger gave the Board an overview of current work and updated information on enrollment. She stated that 478 applications had been received with 33% of those online. This is about the same number received in 2005 at this point in the enrollment period.

Agenda Item III. (B.)
Chairman Ivey called on Bud Pellecchia for the quarterly investment report, which is attached for reference. Mr. Pellecchia informed the board that a pending lawsuit against Callan by the City of San Diego had been settled. In the settlement, San Diego acknowledged that they found no evidence that Callan engaged in "pay to play" or any other unfair business practices in connection with the hiring of money managers. The City of San Diego was asking for $50 million but the settlement was for $4.5 million which would be paid by Callan's insurance company.

Mr. Pellecchia gave an overview of the markets and the trust fund. He stated that asset allocation was very close to the target and that the yearly total return was 9.98%. The return for the quarter was 4.21% verses the target of 4.05%. He then discussed individual manager performance. He reported that InTech was slightly below the benchmark, returning 2.78% verses the benchmark of 3.94%; Rhumbline was at the benchmark; Bear Stearns had stellar performance returning 9.16% verses the benchmark of 6.22%; Earnest Partners underperformed a -2.55% verses the benchmark of 2.55%; Turner Partners underperformed at -3.85% verses the benchmark of -1.76%; New Star returned 3.69% verses the benchmark of 3.93%; Sterne Agee returned 3.7% verses the benchmark of 3.81%; and Western Asset Management returned 4.6% verses the benchmark of 3.81% although there was a discrepancy between the numbers reported by the Custodian, Bank of New York, and the manager. Mr. Pellecchia then provided an explanation for the underperformance of each manager. He further stated that the portfolio was well positioned for performance to improve. Mr. Huff asked if there were any other asset classes that the board should consider and Mr. Pellecchia stated that some changes had been made to accommodate additional classes after the last asset allocation study but that at this time, he did not believe there was a need for additional classes.

Agenda Item IV. (A.)
Chairman Ivey called on Anthony Leigh for a marketing report. Mr. Leigh stated that an effort was being made to blend the marketing for both 529 programs. To that end, a brochure was developed to give the basics for both programs and this

had been mailed to various groups. He also stated that the expanded use of email had allowed a more extensive network of marketing. Various ads were used for radio and television. It was agreed that another email would be sent to college presidents to encourage them to alert alumni that the enrollment period for PACT ends in December.

Agenda Item IV. (B.)
Chairman Ivey informed the board that the report from the Examiners of Public Accounts had been received and there were no findings.

Agenda Item IV. (E. 1.)
Chairman Ivey introduced Mr. Trey Greer and Mr. Wayne Taitt from Earnest Partners who presented information to the board with is attached for reference. They explained the fundamentals of their portfolio and answered questions from the board.

Agenda Item IV. (E. 2.)
Chairman Ivey introduced Mr. Michael Bartek and Mr. Brian Coffey from New Star Institutional Managers who presented information which is attached for reference. They discussed their portfolio and answered questions from the board.

Agenda item V. (A.)
Chairman Ivey reminded the board of the meeting dates that had been provided for 2007.

There being no further business, the meeting was adjourned.

Kay Ivey

Chairman Kay Ivey